

News

ARIZONA Department of Revenue

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ARIZONA CRACKS DOWN ON ILLEGAL CIGARETTES

Sellers and consumers of untaxed cigarettes in Arizona or on the Web may soon be facing stiff fines and a felony charge.

Starting August 25, Arizona will join a growing number of states cracking down on illegal mail-order and Internet cigarette sales to minors and people who are evading state tobacco tax. The State Legislature and Governor Napolitano enacted new laws and tripled the size of the tobacco tax enforcement staff for the Arizona Department of Revenue (DOR) to help stem the tide of illegal sales.

Online cigarette vendors are a growing segment of the tobacco retailing industry. Studies project that online cigarette purchases will constitute anywhere from 6 to 14 percent of the total U.S. market by 2005. A Fiscal Economics, Inc. estimate pegs state and local government tax revenue losses nationally at \$552.4 million for

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the 2003 fiscal year when Internet sales were believed to be 2% of total cigarette sales. This would translate to approximately \$12 million lost revenue for Arizona. Arizona currently collects state cigarette tax at a rate of \$1.18 per pack.

State law will now require all Internet and mail-order sellers that ship cigarettes and certain other tobacco products to Arizona consumers to file monthly reports with DOR that list the names, addresses, and purchases of their customers. Sellers will also collect and report data verifying the age of their prospective customers, and certify that they have collected all Arizona taxes owed on purchases. Shippers contracted by sellers to deliver the cigarettes to consumers will also be required to verify the identity and age of whoever signs for the deliveries.

Sellers and shippers face substantial penalties for evading the new laws, including criminal felony prosecution and fines as great as \$5,000 or 5 times the price of the cigarettes purchased. All illegally shipped cigarettes are subject to seizure and will be forfeited to the state.

Arizona consumers can face the same penalties as sellers and delivery services for purchasing illegal cigarettes and will be liable for tax and any applicable interest and penalties, which could include a fine of 5 times the price of the cigarettes purchased. Minors that violate the law are still liable for the monetary penalties but charged with only a petty offense.

Aside from blocking illegal cigarettes from out-of-state sources, DOR's tobacco enforcement staff is ferreting out unsavory local sellers. Sandra Schwartz, the agency's Criminal and Civil Investigations Administrator, reports that about 57,360 illegal cigarettes have been seized so far in the first half of August, most of which consists of counterfeit, off-brand, and untaxed products.

In addition to increased enforcement efforts, DOR is also launching a "Check the Pack" public awareness campaign that targets Arizona consumers. The advertisement reminds cigarette buyers to check the wrappers on their cigarette packs for Arizona tax stamps, which show that tax has been paid.

More information on the new laws is available on DOR's website, www.revenue.state.az.us.

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